Weekly Economic Review

Shelter costs drive inflation higher

Consumer Price Index (CPI)

Shelter spurs inflation

Alberta inflation jumped to 2.5% in July after falling below 2.0% in June. The pick-up in inflation was from shelter costs, which rose 4.1% (Chart 1). Shelter was driven up by a 41.8% increase in natural gas prices and 14.8% growth in home and mortgage insurance. Excluding shelter costs, inflation was 2.0%. Food costs continue to put upward pressure on inflation with fresh fruit and vegetables, and meat prices posting particularly large increases.

Nationally, inflation fell by 0.3 percentage points to 2.1%. The Bank of Canada's preferred measure of underlying inflation, core CPI rose by 1.7% year-over-year (y/y).

Retail Sales

High sales at gasoline stations

Alberta retail sales hit a new high of $6.6 billion in June, an increase of 8.8% y/y. Strong sales at gasoline stations continued, rising at a double-digit pace for the eighth-straight month. After a muted past couple of months, motor vehicle and parts dealers posted stronger growth of 7.7% y/y. Overall, several sub-sectors showed strong growth including general merchandise stores, clothing and accessories stores, and furniture and home furnishings stores.

Nationally, retail sales also hit a new high of $42.6 billion in June. Sales were up 5.9% y/y, the highest growth since November 2010.

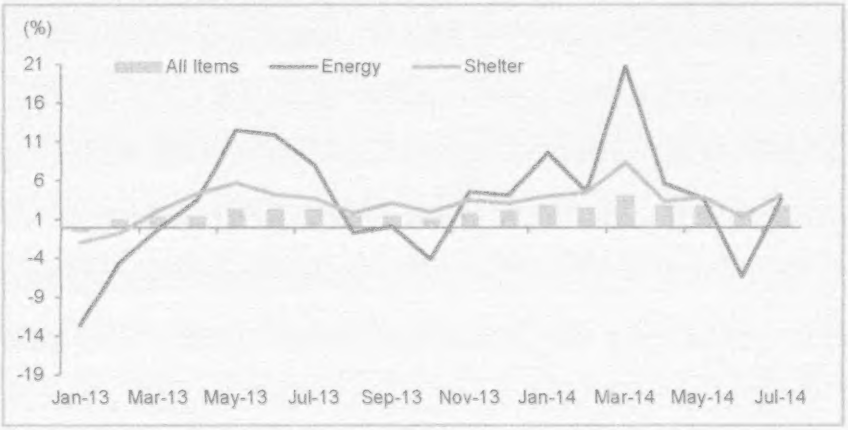
Wholesale Trade

Building supplies and motor vehicles lead growth

Wholesale trade rose to $7.1 billion in June, up 2.0% from the month before and 10.6% above a year ago. All major categories of wholesaling noted year-over-year growth, led by building materials and motor vehicle & parts wholesalers. Building supplies grew in each month this year, rebounding from a soft end to 2013. Likewise, motor vehicle and parts wholesalers saw increased activity, with increased auto sales throughout Alberta. Year-to-date wholesale trade is up 7.2%.

Chart 1: Shelter and energy costs accelerate

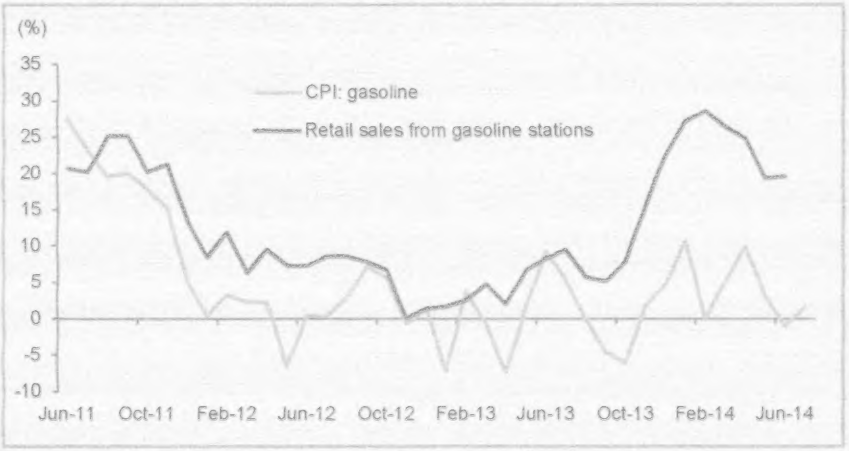
Year-over-year CPI inflation



Source: Statistics Canada

Chart 2: Gasoline station sales outpace gasoline prices

Year-over-year growth of gasoline prices and gas station sales



Source: Statistics Canada

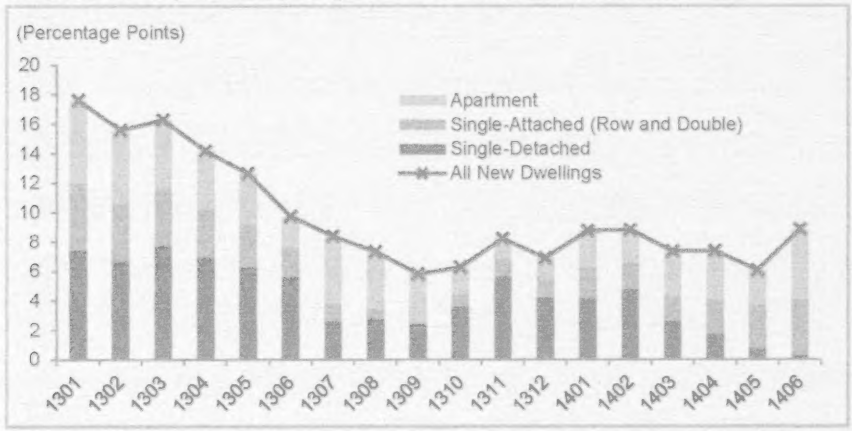
New Residential Building Construction Investment

Lots of new development

Investment in new residential structures increased 8.8% y/y to $900 million in June, the fastest rate of increase since mid-2013. Apartment (33.7%) and single-attached (22.9%) dwellings continued to spur growth, with double-digit growth in each month of this year (Chart 3). Investment in single-detached dwellings was only slightly up from June 2013, though has increased 3.3% year-to-date. Nationally, new dwelling investment increased (2.7% y/y) for the first time in over a year, buoyed by BC (14.9%), Alberta (8.8%), and Quebec (8.0%).

Chart 3: Multi-Unit housing drives residential investment

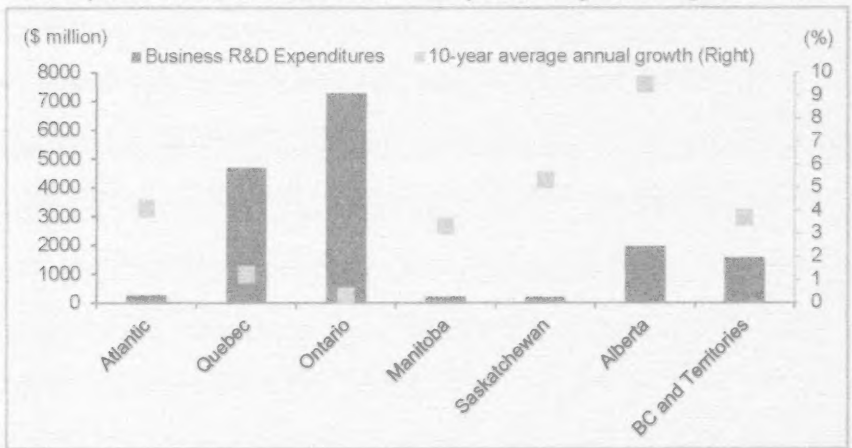
Contribution to year-over-year growth of residential investment



Source: Statistics Canada

Chart 4: Business R&D spending increases in Alberta

R&D Expenditure in 2012 levels and the 10 year average annual growthrate rate



Source: Statistics Canada

R&D Spending

Alberta leads growth

Business R&D expenditure in Alberta rose 7.8% to $2.0 billion in 2012, the third highest of the provinces, behind Ontario at $7.3 billion and Quebec at $4.7 billion (Chart 4). Over the period of 2002-2012, Alberta's business R&D expenditures had a robust compound annual growth rate of 9.5%. This strong growth is partially attributable to R&D expenditure in the mining, oil and gas extraction sector, which had an incredible compound annual growth rate of 17% from 2002-2012, accounting for approximately 59% of Alberta's R&D expenditure growth over this period. Alberta had $6.26 of R&D expenditure for every $1000 of GDP in 2012, behind Quebec at $13.11, Ontario at $10.78, and British Columbia and the Territories at $6.84.

Portfolio Investment

Investment in Canada dips

Foreign investors sold off $1.1 billion in Canadian securities in June after investing an impressive $31.1 billion during April and May. The selloff was concentrated in bonds, as foreigners reduced their holdings of government bonds by $12 billion. This was partly offset by an additional $8 billion in corporate debt, and $2.5 billion in equities, with the bulk of equity investment in the energy sector. In terms of outward investment, Canadians purchased $2 billion in foreign securities during June, the 9th consecutive month of growing investment in foreign securities.

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Please see the *Alberta Economy- Indicators at a Glance* for a snapshot of Alberta indicators.